

Message Text

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FM AMEMBASSY LONDON

TO SECSTATE WASHDC 4048

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E.O. 11652: N/A

TAGS: BMEP, ETRN, UK

SUBJECT: MAJOR PROJECT - SALE OF ENGINES TO HAWKER-
SIDDELEY FOR HS-146

REF.: STATE 175340

1. WE FULLY SHARE REFTTEL'S ASSESSMENT THAT AVCO-LYCOMING (A/L) ENGINE CONTRACT FOR HS-146 PROJECTS REPRESENTS REAL COUP FOR U.S. ENGINE MANUFACTURERS. THIS IS FIRST TIME, TO OUR KNOWLEDGE, THAT U.S. ENGINES WILL BE USED ABOARD BRITISH CIVIL TRANSPORT AIRCRAFT. NOW THAT BREAKTHROUGH HAS BEEN MADE, WE BELIEVE IT EXTREMELY IMPORTANT THAT USG BE SEEN TO BE FULLY BEHIND A/L EFFORT. CRITICAL ELEMENT IN SUCH SUPPORT WILL BE DECISION ON EXPORT-IMPORT BANK CREDIT FACILITY FOR EXPORT OF ENGINES. HAWKER-SIDDELEY HAS ALREADY ASKED US ABOUT AVAILABILITY OF EXIM FINANCING FOR A/L ENGINES (LONDON 7822) AND CLEARLY REGARDS SUCH FINANCING AS IMPORTANT ELEMENT IN OVERALL PROJECT. WE BELIEVE EXIM FINANCING WOULD BE FULLY CONSISTENT WITH PURPOSE AND OBJECTIVES OF EXIM IN PROMOTING US EXPORTS. MORE IMPORTANTLY, LACK OF SUCH FINANCING WOULD, IN OUR VIEW, SERIOUSLY DISADVANTAGE US ENGINE MANUFACTURERS COMPETING WITH OTHERS IN ANY FUTURE FOREIGN AIRCRAFT PROJECTS.

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2. RE COOPERATION BETWEEN A/L AND ROLLS-ROYCE (R-R), WE

UNDERSTAND THAT DURING PRELIMINARY MEETING WITH UKG IN JULY 1972, A/L HAD BEEN ASKED TO TRY TO GIVE R-R SOME-THING ON ORDER OF 30 PERCENT OF ENGINE WORK. SUCH COL-LABORATION, HOWEVER, WAS NOT REPEAT NOT A CONDITION FOR SELECTION OF A/L ENGINES. A/L HAS BEEN DISCUSSING POS-SIBLE WORK SHARING WITH R-R SMALL ENGINE DIVISION, BUT AT THIS STATE IT APPEARS R-R PARTICIPATION WILL BE NOMINAL, PERHAPS AROUND 5 PERCENT. WE DO NOT BELIEVE THIS CASE NECESSARILY REPRESENTS A BASIC CHANGE IN UK POSITION WITH RESPECT TO PREFERRING JOINT VENTURE AGREEMENTS OVER STRAIGHT PURCHASE. MORE IMPORTANT FACTOR IN SOFTENING UKG POSITION, WE BELIEVE, WAS THE TOUGH COST, PERFORM-ANCE AND RELIABILITY STANDARDS LAID DOWN BY HS FOR ENGINE COMPONENT AND INSISTENCE BY HS THAT THESE STANDARDS MUST NOT BE COMPROMISED IN ANYWAY BY SHARING OF WORK BETWEEN A/L AND R-R. HAWKER RECEIVED HS-146 PROJECT STRICTLY AS A COMMERCIAL VENTURE AND, ACCORDING TO OUR SOURCES, TOLD GOVERNMENT IT WOULD DROP PROJECT RATHER THAN ACCEPT GOVERNMENT CONDITIONS ON WORK SHARING, ETC., THAT MIGHT AFFECT COMMERCIAL VIABILITY OF PROJECT.

3. EMBASSY ROLE IN SELECTION OF A/L OVER ROLLS-ROYCE WAS A MODEST ONE. WE DISCUSSED PROJECT SEVERAL TIMES WITH HS OFFICIALS AND EMBOFFS VISITED PLANT WHERE 146 WILL BE BUILT. WE ALSO QUESTIONED SENIOR GOVERNMENT OFFICIALS ON SEVERAL OCCASIONS CONCERNING STATUS OF GOVERNMENT DECISION RE FINANCIAL BACKING FOR PROJECT. WE USED SUCH OCCASIONS TO EXPRESS OUR STRONG INTEREST IN SEEING PROJECT GO FORWARD UTILIZING U.S. ENGINES. WE BELIEVE OUR EFFORTS CLEARLY DEMONSTRATED TO UK OFFICIALS THAT USG WAS FOLLOWING PROJECT CLOSELY AND THAT WE WERE KEENLY INTERESTED IN POSSIBLE SALE OF US ENGINES. FRANKLY, HOWEVER, WE WOULD GUESS OUR EFFORTS HAD ONLY MARGINAL INFLUENCE ON SELECTION OF A/L ENGINES OVER ROLLS-ROYCE. IN FIRST INSTANCE, A/L DID GREAT JOB IN CONVINCING HS ENGINEERS THAT ALF-502 WAS THE BEST ENGINE IN WORLD FOR AIRCRAFT THEY WERE DESIGNING. ONCE HS WAS CONVINCED, THEY REFUSED TO COMPROMISE ON ANY SECOND-BEST ENGINE AND EVENTUALLY HAMMERED THE UKG INTO ACCEPTING LIMITED OFFICIAL USE
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A/L.

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